

HOUSING MARKET OUTLOOK

Québec CMA



CANADA MORTGAGE AND HOUSING CORPORATION

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Economic environment favourable to the housing market¹

The Québec census metropolitan area (CMA) went through the economic downturn relatively without incident. As well, the current signs of recovery, combined with the dynamic

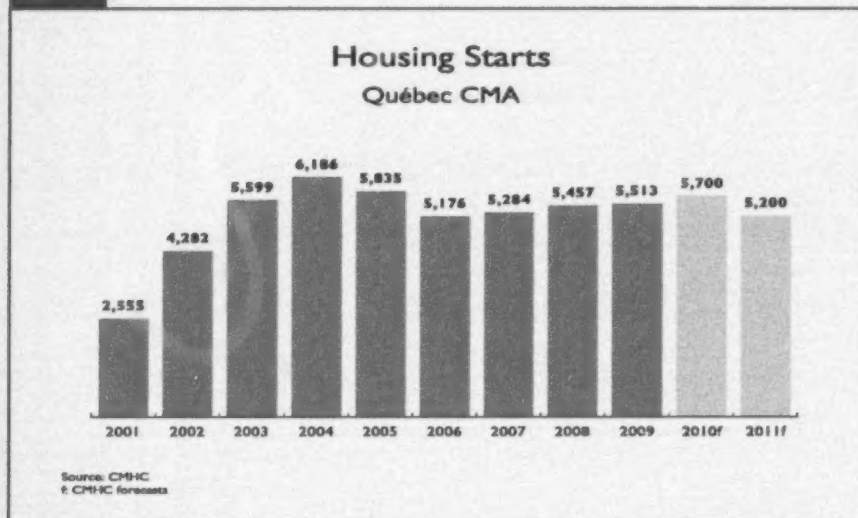
demographics, are pointing to a favourable outlook for the housing market.

In 2009, the job market in the CMA resisted, but still somewhat reflected the prevailing conditions. In fact, there were fewer full-time jobs, and some sectors declined (manufacturing, transportation and warehousing) while others grew (construction, finance, insurance and real estate,

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Figure 1



¹ The forecasts included in this document are based on information available as of April 23, 2010.

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health care). In the first quarter of this year, the CMA had one of the lowest unemployment rates in the country (4.3 per cent), which illustrates the capacity of the regional economy to maintain itself in a solid position.

In 2010, the effects of the governments' economic stimulus measures will continue to be felt. As well, numerous non-residential construction projects will generate positive spinoffs for the area. In 2011, the job market will benefit from the recovery and should continue to grow. Several sectors will regain the ground lost in 2009, and construction, overall, will be very dynamic.

The next two years will allow the job market to post renewed, although limited, growth. Close to 2,000 jobs will be created in each of 2010 and 2011, which will lead the labour market to post an annual growth rate of 0.5 per cent.

Mortgage rates

The Bank of Canada cut the Target for the Overnight Rate in the early

months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed to be in the 5.0-6.0 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic

recovery is more modest in nature.

Québec, an increasingly significant hub

Not only does the Québec area have one of the lowest unemployment rates in the country, the CMA is also standing out from the other metropolitan areas across the province, which is a major advantage when it comes to attracting and retaining qualified labour.

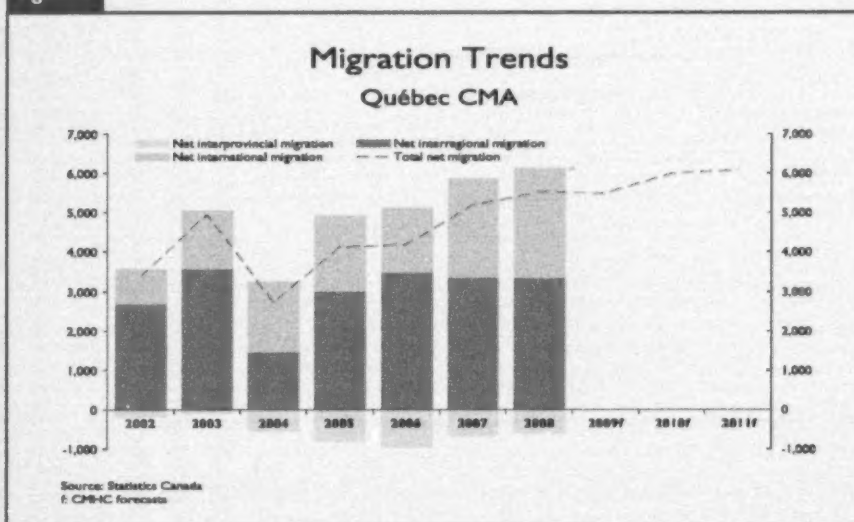
One could think that the increase in the government's immigration targets benefited the Québec CMA. In fact, it can be noted that a growing number of immigrants are settling in the province. In 2009, the number of immigrants reached 49,500 people, compared to just 39,500 in 2003. In addition, the Québec area is attracting a larger and larger proportion of the immigrant population in the province, as net international migration reached a peak of 2,800 people in 2008.

According to data from the Institut de la statistique du Québec (ISQ), the province's eastern regions continue to account for the greatest share of intraprovincial migrants. Most of these newcomers are young people aged from 15 to 24 years who are attracted by the employment opportunities.

Reflecting the interprovincial population movements, the CMA sees more people leave the area for other provinces than new residents come from other regions of the country. The interprovincial migration deficit has diminished since 2008, though, on account of the more pronounced deterioration of the labour market in Western Canada. Net migration in the Québec CMA has therefore increased in recent years and attained a high in 2008, with a total of 5,533 people.

The high net migration noted in the

Figure 2



area is fuelling housing demand. The arrival of international immigrants and young people entering the labour market increase the need for rental housing and, over the longer term, boost demand on the existing and new home markets. Over the coming years, the area should continue to attract many immigrants.

Demographic outlook, an indicator of upcoming market trends

Our latest demographic projections for the area indicate a slowdown in household formation. However, this deceleration will take place gradually starting in 2012, based on a migration scenario that reflects the trend observed in recent years. Our most recent demographic projections show that, for the five-year period following the last census (2006-2011), household formation will stay at a similar level as in the previous period (2001-2006).

The changes in the demographic profile of new households will have

an impact on housing demand. Over the coming years, households with a primary maintainer aged from 65 to 74 years will increase the most, followed by those with a primary maintainer aged from 55 to 64 years. This partly explains the growing demand for condominiums, a housing type that is well suited to the needs of this segment of the population. In addition, the residential path of older households will also have an effect on the rental housing demand, as senior households make up a larger share of renters. Finally, the formation of households aged 75 years or older will be less significant over the coming years, which will slow demand in the retirement home segment. This could also explain why listings remain limited on the resale market.

The area will have fewer households aged from 25 to 54 years, which will limit the growth in homeownership. It should be pointed out, however, that the level of homeownership has risen significantly in recent years. Between the last two censuses, the proportion of homeowner households increased from 57 per cent to 59 per cent. The

homeownership trend, along with the growth in the number of households aged from 55 and 74 years, will fuel housing demand in the coming years. Over the longer term, for the period from 2011 to 2016, households aged from 65 and 74 years will significantly influence housing demand, as they will account for nearly 60 per cent of the new households formed in the Québec area.

Resale market activity to ease over the coming quarters

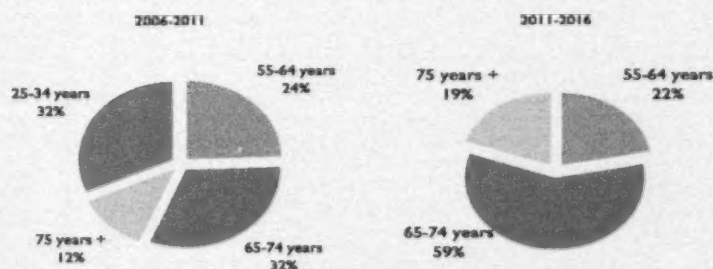
The resale market remained very active in 2009, as MLS® sales increased slightly (+1.7 per cent), attaining a new peak. However, the year saw ups and downs, with MLS® sales falling during the first two quarters and then rising sharply in the last three months of the year. The hike registered in the fourth quarter reached 25 per cent. Demand on the existing home market came up against a more limited supply, however, since new listings fell by 12 per cent. The decrease in mortgage rates was unquestionably a major factor in the recent trend on the market, with quite a few households having made the decision to move up their purchases to take advantage of the exceptionally low rates. With the anticipated gradual rise in the rates in 2010, and once the earlier-than-planned purchases will have waned, activity will ease over the last two quarters.

The market will therefore have moved in two different directions in 2010, since, during the second half of the year, a slowdown will follow the strong activity recorded in the first two quarters. In the end, MLS® sales will rise slightly (+1 per cent). The market will stay tight in 2010 but should ease slightly in 2011. The growth in prices will remain strong in 2010, at 7.4 per cent, but will slow

Figure 3

Households Aged from 65 to 74 Years to Further Shape Housing Demand

Distribution (%) of New Households¹ by Age Group



Source: Statistics Canada, Institut de la statistique du Québec, CMHC projections
¹ Households on the rise for the period indicated

down in 2011 (+5 per cent).

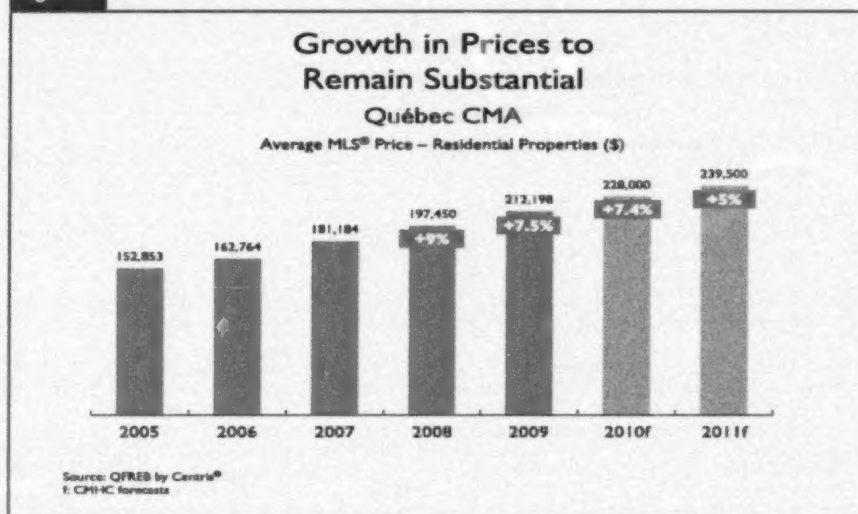
In 2011, the market will show a slowdown in activity, with a decrease in transactions from 2010 (-6 per cent). Economic and demographic conditions in the area will still lead to a significant level of activity, and demand will stay strong. However, new listings will remain limited, which will keep the relationship between sellers and buyers relatively tight. The fact that the population aged 75 years or older is growing less rapidly could account for the limited number of new listings. This trend will continue for a few more years, as it reflects the lower birth rate that prevailed in the 1930s during the Great Depression.

In general, the existing home market will be very active this year, and buyers will have to contend with a limited supply. This will also give a boost to the new home market, since a number of buyers will turn to new construction to meet their housing needs.

Residential construction to benefit from a favourable environment

The low mortgage rates also had a driving effect on the new home market. This situation made new single detached homes more accessible. Indeed, for the period from January to April 2010, renewed single-detached housing activity was observed in the area, following decreases in starts for the last five years. Over the last few years, the increase in land prices has led buyers to turn to semi-detached homes, a more affordable housing type. In 2010, it is expected that single-detached home building will rise by 3 per cent on account of the limited supply on the existing home market and the favourable financing conditions.

Figure 4



In the multiple-unit housing segment, condominiums will continue to be sought by a growing number of households seeking a home that requires less maintenance and is often more affordable than a single-detached house. As well, the construction of traditional rental dwellings will continue at a brisk pace, given the vigorous demand and the few vacant units in the area. However, it can be noted that the construction of rental housing for seniors (retirement homes) slowed down significantly in 2009. This decline was due to the major increase in supply in both 2007 and 2008 and to the limited rise in the number of people aged 75 years or older. This situation will last for another few years, which will curb construction in this market segment.

In the end, the 2010 result will be 3 per cent higher than the 2009 level, with a total of 5,700 housing starts. Then, in 2011, activity is expected to slow down, in both the single-detached and multi-family housing segments. The rise in interest rates will weaken demand, with part of this demand having in fact been expressed

in 2010. It should be taken into account, though, that the job market will grow, which will support the housing market. Starts will therefore stay above the 5,000-unit mark, reaching a total of 5,200 units.

Rental market conditions to reflect dynamic demographics

In addition to stimulating the formation of young households in the area, the strength of the regional job market continued to attract a labour force from other regions in the eastern part of the province. Also, as mentioned earlier, net international migration increased, as well. These two factors had significant impacts and contributed to the rise in the rental housing demand in the CMA.

In fact, the Quebec area had the lowest vacancy rate in Canada (0.6 per cent), which reflects the tight gap between housing supply and demand. In 2010, the vacancy rate will remain stable at 0.6 per cent, on account of the dynamic demographics. Even if the rental housing construction volume

was higher in 2009 than in 2008 (1,054 units, versus 501), demand is such that the rental market will still remain tight. In 2011, the market should somewhat reflect the increase in supply that will continue in 2010, and the vacancy rate will rise to 0.8 per cent.

In 2009, the tight rental market conditions led to an estimated change of 3.5 per cent in the average rent² for two-bedroom apartments. The average rent for units of this type will reach \$696 in October of this year and then rise to \$714 in the fall of 2011, for the overall CMA.

² It should be noted that CMHC now uses a measure (introduced in 2006) that estimates the change in rents charged in existing structures. This measure therefore excludes the impact of new structures and conversions added to the universe between surveys.

Forecast Summary Québec CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market¹							
MLS® Sales	7,955	7,838	7,969	8,050	1.0	7,600	-5.6
MLS® Active Listings	3,273	3,254	3,238	3,100	-4.3	3,300	6.5
MLS® Average Price (\$)	181,184	197,450	212,198	228,000	7.4	239,500	5.0
New Home Market							
Starts:							
Single-Detached	2,144	2,031	1,746	1,800	3.1	1,600	-11.1
Multiples	3,140	3,426	3,767	3,900	3.5	3,600	-7.7
Starts - Total	5,284	5,457	5,513	5,700	3.4	5,200	-8.8
Average Price (\$):							
Single-Detached	236,794	261,871	294,172	320,000	8.8	339,200	6.0
New Housing Price Index (% chg.)	4.0	5.3	7.0	7.0	-	5.0	-
Rental Market²							
October Vacancy Rate (%)	1.2	0.6	0.6	0.6	-	0.8	-
Two-bedroom Average Rent (October) (\$)	641	653	676	696	-	714	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-	5.56	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-	7.06	-
Annual Employment Level	385,700	391,700	391,700	393,600	0.5	395,600	0.5
Employment Growth (%)	2.4	1.6	0.0	0.5	-	0.5	-
Unemployment rate (%)	5.0	4.5	4.9	5.0	-	5.1	-
Net Migration ³	5,184	5,533	5,500	6,000	9.1	6,100	1.7

¹ Source : QFREB by Centris®² Privately initiated rental apartment structures of three units and over³ 2009 migration data are forecasted

Sources: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), QFREB by Centris®

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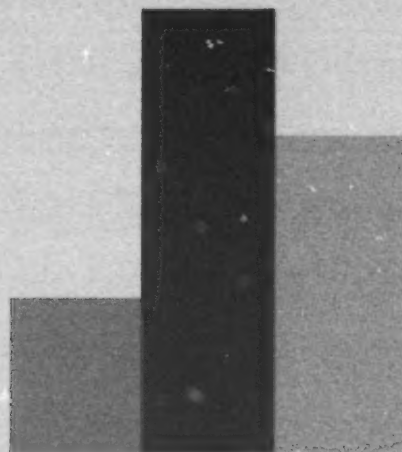
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